

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

SB 637 - HB 598

February 20, 2013

SUMMARY OF BILL: Increases the retirement allowances paid from the Tennessee Consolidated Retirement System (TCRS) to each retired teacher, wildlife officer, state police officer, firefighter, police officer, and general employee. Increased retirement allowances range from 0.3 percent to 10 percent based on years of service. Participation by local governments is optional.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures - \$923,400

Increase Federal Expenditures - \$115,000

**Increase Local Expenditures - \$385,500/Mandatory*
\$98,000/Permissive**

Other Fiscal Impact – The total additional lump sum pension liability to the TCRS is estimated to exceed \$6,593,200.

Assumptions:

- TCRS provides retirement benefits for retired state employees, retired teachers, and retired local government employees.
- Based upon information provided by TCRS, and relative to state employees and teachers, this bill will increase the lump sum pension liability of TCRS by approximately \$5,593,194 (\$1,951,900 relative to state employees and \$3,641,294 relative to teachers).
- TCRS typically utilizes a 20-year horizon, pursuant to Tenn. Code Ann. §3-9-103(b), and a 7.5 percent interest rate, pursuant to Tenn. Code Ann. §8-34-505, when estimating annual amortized payments of pension benefits. The estimated annual amortized payment derived from these assumptions is used when TCRS cannot reasonably determine the specific members impacted by the proposed legislation.
- According to TCRS, staff was able to determine the specific state and teacher members that will be impacted by this bill. As a result, a more accurate estimate for the annual amortized payment of pension benefits can be obtained. TCRS

indicates that the annual amortized payment of pension benefits will be approximately \$460,100 relative to state members and approximately \$963,872 relative to teacher members (the total increase in the annual amortized payment of pension benefits will be approximately \$1,423,972).

- Retirement benefits for retired state employees are funded 75 percent with state funds and 25 percent with federal funds. Therefore, a recurring increase in state expenditures of \$345,075 ($\$460,100 \times 75\%$); and a recurring increase in federal expenditures of \$115,025 ($\$460,100 \times 25\%$).
- Retirement benefits for retired teachers are funded 60 percent with state funds and 40 percent with local government funds. Therefore, a recurring increase in state expenditures of \$578,323 ($\$963,872 \times 60\%$); and a recurring mandatory increase in local government expenditures of \$385,549 ($\$963,872 \times 40\%$).
- The extent to which local governments adopt the provisions of this bill is unknown. However, it is reasonably estimated that local governments will adopt the bill sufficient to increase the total lump sum liability of TCRS by at least \$1,000,000. Assuming a 20-year horizon, a 7.5 percent interest rate, the annual amortized payment of benefits from TCRS will increase by an amount exceeding \$98,000. Therefore, a permissive and recurring increase in local government expenditures of \$98,000.
- Retirement benefits for local government employees are funded 100 percent with local government contributions. Therefore, a recurring increase in local government expenditures exceeding \$98,000.
- The total recurring increase in state expenditures is estimated to be \$923,398 ($\$345,075 + \$578,323$).
- The total recurring increase in federal expenditures is estimated to be \$115,025.
- The total increase to the lump sum pension liability is estimated to exceed \$6,593,194 ($\$5,593,194 + \$1,000,000$).

*Article II, Section 24 of the Tennessee Constitution provides that: *no law of general application shall impose increased expenditure requirements on cities or counties unless the General Assembly shall provide that the state share in the cost.*

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Lucian D. Geise, Executive Director

/cce